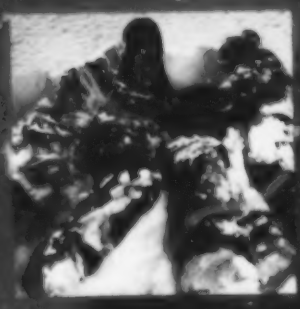
MINISTER'S ADVISORY COMMITTEE ON PERSONAL INCOME TAXATION



Northwest Territories Personal Income Tax

Recommendations for 2003

105-00645/

NWT PERSONAL INCOME TAX

Recommendations for 2003

MINISTER'S ADVISORY COMMITTEE ON PERSONAL INCOME TAXATION

MINISTER'S ADVISORY COMMITTEE ON PERSONAL INCOME TAXATION

October 26, 2001

The Honourable Joseph L. Handley
Minister of Finance

Dear Minister Handley:

The members of the Minister's Advisory Committee on Personal Income Taxation are pleased to submit our report on the NWT personal income tax. The report contains recommendations that we believe will tailor the NWT personal income tax system to more effectively address the special needs of our territory.

This report includes suggestions, views, ideas and input from a number of groups and individuals. The Committee appreciates the efforts of those who contributed their time and ideas to this collaborative effort.

The Committee members would like to thank you for the opportunity to participate in this study. We believe that the adoption of our recommendations will not only make the NWT's personal income tax system more effective and equitable, but also help the NWT attract and retain the highly skilled labour and investment that are crucial for success in today's competitive marketplace.

Andy Wong, Chair

Barry Ashton

George Dimsdale

Derek Lindsay

Martina Norwegian

Danny Yakeleya

TABLE OF CONTENTS

HIGHLIGHTS ii

INTRODUCTION 1

ANALYSIS OF TAX OPTIONS 7

- Graduated Tax 7
- Flat Tax 8
- Competitive Tax 9
- Credit Amounts 10
  1. Cost of Living Tax Credit 10
  2. Disability Amount 11
  3. Age Amount 12
  4. Investment Tax Credit 13
  5. Medical Expenses 13
  6. Charitable Donations 13
  7. Education Amount 14
  8. Proposed Isolated Community Credit 14
  9. NWT Child Benefit 14
  10. Payroll Tax 15
- Comparison with Other Provinces 16

RECOMMENDATIONS 17

- Option A: Graduated Tax 17
- Option B: Flat Tax 18
- Option C: Competitive Tax 18
- Increase in the Age Amount 18
- Increase in the Disability Amount 19
- Implement a Minimum COLC 19
- Summary of the costs of the recommended options 20

APPENDIX 1- COMPARISON OF ALBERTA, BRITISH COLUMBIA AND ONTARIO PERSONAL INCOME TAX CHANGES 21

APPENDIX 2- COMPARISON OF DIFFERENT OPTIONS 23

APPENDIX 3- PROVINCIAL PERSONAL INCOME TAX RATES, BRACKETS AND NON-REFUNDABLE CREDITS 25

Highlights

The Minister's Advisory Committee on Personal Income Taxation was formed in May 2001 to provide recommendations on how the Tax on Income system can best serve the NWT. This report represents the culmination of four months of analysis during which the Committee studied other provincial and territorial personal income taxes, reviewed submissions and solicited suggestions from NWT residents on improving the personal income tax system.

Goals

The Committee set the following goals.

- ✓ Reduce the tax burden for all taxpayers.
- ✓ Maintain competitiveness with other provinces and territories in all tax brackets.
- ✓ Eliminate the tax burden for low income NWT residents.

Zero tax payable for a single person with income less than $20K; and couples with household income less than $36K.

Evaluation Principles

The Committee developed the following set of principles, which are consistent with the Terms of Reference. These principles were used as the guidelines for the analysis:

- ✓ Equity
- ✓ Efficiency
- ✓ Competitiveness and effect on economic growth
- ✓ Simplicity and ease of administration

Recommended Options

Careful consideration of other provincial personal income tax regimes within the Committee's framework for analysis led the Committee to provide three possible options for the NWT personal income tax system:

1. Graduated Tax Option- tax rates increase from low to higher income brackets.
2. Flat Tax Option- same tax rate applied to all income levels.
3. Competitive Tax Option – graduated tax system which will provide NWT residents with the lowest personal income tax system in Canada.

The table on the following page summarizes the recommended income tax options, suggested increments to specific amounts used for calculation of non-refundable tax credits, the zero tax levels and the estimated cost of the recommended options.

Summary of Income Tax Options

Aspect	Current Indexed to 2003	Graduated Tax	Flat Tax	Competitive Tax
Brackets (indexed to 2003)[1]				
Less than $32,122	7.2%	7.2%	9.5%	8.0%
$32,122 – $64,245	9.9%	9.9%	9.5%	9.24%
$64,245 – $104,448	11.7%	11.7%	9.5%	10.0%
over $104,448	13.05%	13.05%	9.5%	10.0%
Personal Amount	$7,742	$11,050	$13,000	$12,900
Spousal and Equivalent to Spousal Amounts	$6,574	$11,050	$13,000	$12,900
Age Amount	$3,780	$5,405	$5,405	$5,405
Disability Amount	$6,267	$8,961	$8,961	$8,961
Zero NWT Taxes for Single Taxpayer[2]	$14,240	$20,000	$21,580	$22,440
Zero NWT Taxes for Single Income Couple[3]	$25,700	$36,400	$39,120	$39,920
Cost to Implement	0	$7.5 million	$9.8 million	$13.6 million
Comments	This is the existing personal income tax system with the tax on income rates and the new cost of living credit rates. (estimated 2003 amounts with indexing)	Same as the current system except the personal, spousal, equivalent to married, age and disability amounts are increased.	The flat tax applies the same tax rate to all incomes. The personal, spousal, equivalent to married, age and disability amounts are increased.	Tax rates and personal exemptions are set to ensure all NWT taxpayers pay the lowest taxes in Canada. The spousal, equivalent to married, age and disability amounts are also increased.

[1] Brackets for Competitive Tax are $0-$33,000, $33,000-$60,000 and $60,000 and over.
[2] Below the amount shown, there will be no tax payable by a single income earner.
[3] Below the amount shown, there will be no tax payable by a single earner couple.

Introduction

Effective January 1, 2001, the NWT replaces its current personal tax system with a tax on income (TONI) system. The TONI system permits the NWT to apply rates and credits directly to taxable income for determining NWT personal income tax. This system gives the GNWT greater flexibility to tailor the tax system to its needs and priorities.

The move to TONI system is an important change to the NWT personal income tax system. The change creates the opportunity for the GNWT to set tax rates and introduce credits that more accurately reflect the values of NWT taxpayers. This gives the GNWT more flexibility to design its own personal income tax system. The options available to the GNWT are:

- ✓ converting the existing system of tax on federal tax to tax on income without changing the effective tax rates,
- ✓ setting different tax brackets and tax rates,
- ✓ adding supplements to existing credits, and
- ✓ introducing new non-refundable tax credits.

The opportunities provided by the change to TONI led the Minister of Finance to establish the Minister's Advisory Committee on Personal Income Taxation in May 2001 to perform an independent review of the NWT's personal income tax system. The Committee was asked to determine the revisions that could be made to the NWT's current personal income tax system to improve the competitiveness of the NWT economy.

The role of the Committee was to:

- ✓ Review the issues raised by a move to a TONI system.
- ✓ Provide a forum for public input on this change.
- ✓ Review options and make recommendations to the Minister of Finance.

COMMITTEE MANDATE

- ***To review options available to the GNWT by changing the NWT personal income tax system from a tax on tax to tax on income (TONI)***
- ***To make recommendations to the Minister of Finance on the structure of income tax for the NWT under TONI for 2003.***

The scope of the Committee included the following:

- ✓ Consideration of the existing NWT PIT system, including the payroll tax, cost of living tax credit and the NWT Child Benefit.
- ✓ The options for changing to a tax on income system (including income tax rates, brackets and credits) available to the government.
- ✓ The revenue implications of the options provided.

In fulfilling its mandate, the Committee undertook the following:

- ✓ Reviewed the current tax system and its implication for taxpayers at different income levels.
- ✓ Established an information web site, distributed an information pamphlet to every NWT household, solicited responses from the public through newspaper advertisements and invited responses from the public.
- ✓ Considered issues related to each component of the personal income tax system, including comparisons to other provincial jurisdictions, and evaluated the NWT's tax competitiveness relative to other provinces, particularly Alberta.
- ✓ Discussed the administrative and economic effects of changes in these components.
- ✓ Assessed the impact of various options at different income levels on NWT residents.
- ✓ Prepared recommendations for the consideration of the Minister of Finance.

Principles for Analysing the NWT Personal Income Tax System

The Committee's mandate was to provide options for a personal income tax system that recognises the needs of the residents of the Northwest Territories.

The main function of the NWT personal income tax system is to provide revenues to pay for government programs and services. However, a tax system should be designed so it

can raise the necessary revenues in a way that is fair, efficient and as simple as possible. In addition, taxes may also be used to promote economic and social goals such as improving the distribution of wealth and income.

The Committee developed the following set of principles, which are consistent with the Terms of Reference, to guide their analysis.

- ✓ Equity
- ✓ Efficiency
- ✓ Competitiveness and effect on economic growth
- ✓ Simplicity and ease of administration

Equity

The equity of a tax system refers to the tax burden placed on individuals and how the tax burden differs between individuals. The concept of equitable treatment, however, has two components. First, the concept of equity addresses the treatment of taxpayers with the same ability to pay. Second, equitable treatment must determine how to treat people with different abilities to pay.

Making individual taxpayers with the same level of income pay the same level of taxes is a widely accepted equity criteria used in judging a tax system. It is a generally recognized principle that taxpayers who have a similar ability to pay should have a similar tax burden.

The second part to the equity criteria, how to treat people with varying abilities to pay, is a more contentious judgement and relates to the graduation of a tax. A tax is graduated if the marginal tax rate increases as the taxpayer's income increases. A graduated tax therefore reflects the notion that as an individual's income increases, the individual's ability to pay tax increases. Under a flat tax system, the marginal tax rate stays the same for all taxpayers. In its analysis, the Committee considered the conflicting values of taxing on ability to pay and treating all taxpayers the same.

Efficiency

Taxes distort the normal operation of a market economy. When the marketplace determines prices without any external impositions, the system is called efficient. When a tax changes a taxpayer's behaviour, it creates inefficiency in the economy. Therefore, an efficient tax system minimizes its influence on taxpayers' behaviour.

Tax incentives in support of government policy goals may reduce efficiency if they encourage decisions based on tax considerations rather than sound economic reasons. However, tax incentives may increase efficiency if they encourage activities that benefit society, indirectly benefit the taxpayer, or reflect costs that may otherwise be ignored. For example, incentives to encourage low income individuals to find employment rather than rely on income support have positive effects on both society and the individual.

Competitiveness and effect on economic growth

The NWT tax system must be competitive with those of other jurisdictions. Many individuals are mobile, especially those with higher incomes or those working at remote sites. If the tax regime is not competitive, these individuals may move to another jurisdiction. Encouraging individuals to reside in the NWT means the GNWT benefits not only from tax revenue, but also through the population provisions of the Formula Financing Agreement.

Simplicity and Ease of Administration

Taxes impose costs on both taxpayers and government. A simpler tax may be viewed as more efficient if it imposes fewer compliance costs on taxpayers. The reasons for exemptions, credits or other special measures should be weighed against the complexity they add to the system. Although complex legislation may be necessary, compliance by the taxpayer should be simple.

Other considerations

In addition to these criteria, the NWT personal income tax system is constrained by the Tax Collection Agreement with Finance Canada and the Service Management Framework Agreement with the Canada Customs and Revenue Agency (CCRA). Under the Tax Collection Agreement, the NWT must accept the federal tax base if it wants the CCRA to collect its tax. Therefore, the NWT is restricted to accepting Finance Canada's definition of taxable income.

Analysis of Tax Options

The Minister's Advisory Committee on Personal Income Taxation used its review of other provincial tax systems and the principles it had identified as the framework to evaluate various tax options.

The Committee considered the following three different scenarios for their ability to satisfy the principles and goals established in the Committee's Terms of Reference:

- ✓ **Graduated Tax Option**
- ✓ **Flat Tax Option**
- ✓ **Competitive Tax Option**

Graduated Tax

Graduation makes a higher income earner pay more tax per additional dollar of income than a low income earner. The principle behind the graduated tax system is that people with higher incomes pay more tax as a percentage of income because they have a greater "ability to pay." Graduation is part of the current NWT income tax system. All other provinces and territories except Alberta use the graduated system.

The proposed Graduated Option retains the same bracket structure as the current tax on tax system. The tax rates for the Graduated Option were left the same as the previous tax on tax rates.

One objective of the Committee was to increase the income level at which single taxpayers would not pay NWT tax from $14,240 to $20,000. It was determined that the most effective way to achieve this was to raise the personal amount to $11,050. This creates a tax benefit of $238 for all taxpayers with sufficient income to claim the full amount, regardless of their income level. Since $238 is more significant to a low income earner than a high income earner, this option has the effect of targeting low income taxpayers.

GRADUATED TAX OPTION

- ***Taxpayers with income below $20,000 will not pay NWT tax.***
- ***Married taxpayers in single earner households with income below $36,400 will not pay NWT tax.***

Analysis of Tax Options

- ✓ Graduated Tax Option
- ✓ Flat Tax Option
- ✓ Competitive Tax Option

Graduated Tax

- *Employee with income $25,000 will not pay NWI tax.*
- *Married taxpayers in high earner households with income below $36,400 will not pay NWI tax.*

Under the current system, the personal amount is greater than the spousal and equivalent to married amounts. Therefore, single taxpayers with incomes below $14,240 do not pay NWT tax and single earner couples with incomes below $25,700 do not pay NWT tax.

The Committee also decided to further reduce taxes by increasing the spousal and equivalent to married amounts the same amount as the proposed personal amount of $11,050. This increase creates an additional tax benefit of $322 to single earner couples. The effect of the increase in the credit is greater for the spousal and equivalent to married amounts because the credits were lower initially and represent a greater increase.

The combined effect of increasing the personal, spousal and equivalent to married amounts would raise the cut-off for the zero-tax level to $20,000 for single taxpayers and $36,400 for single earner couples under the graduated tax option.

Flat Tax

"Flat" simply means "no graduation", or everybody pays the same rate. Under the flat tax there is no rise in the tax rate with increases in income. It is "flat".

The principle behind the flat tax is that all individuals are treated the same regardless of their income levels. The flat tax simplifies tax calculations.

The Flat Tax System applies a single tax rate across all income brackets. This would mean a significant change to the NWT personal income tax system. A single tax rate of 9.5% was chosen as a way to reduce the tax for both middle and high income earners from the current rates of 9.9%, 11.7% and 13.05%. This rate is an increased tax rate for the lowest income bracket of 7.2%.

The Committee proposed that credits be increased to offset the effect of the rate increase at lower incomes. To address this problem, the Committee's Flat Tax Option would require that the personal amount be increased to $13,000. This would make the NWT personal amount the highest in Canada.

FLAT TAX OPTION

- ***Taxpayers with income below $21,580 will not pay NWT tax.***
- ***Single earner couples with income below $39,120 will not pay NWT tax.***

The combined effect of increasing the personal, spousal and equivalent to married amounts would raise the cut-off for the zero-tax level to $21,580 for single taxpayers and $39,120 for single earner couples.

While the proposed flat tax, combined with the increases in credits, reduces taxes paid by lower income groups, the option would provide a greater benefit to the highest income group because it receives a decrease in the tax rate and increases in the credits.

Competitive Tax

The Competitive Tax Option creates multiple layers of tax saving, thus encouraging work, saving and entrepreneurial activity, which leads to a stronger economy. This increases the potential for investments in new machines and technology that will make NWT workers more efficient and competitive. High marginal tax rates discourage work, saving and entrepreneurial activity, which leads to a smaller economy.

COMPETITIVE TAX OPTION

- ***NWT - lowest taxes in Canada***
- ***Taxpayers with income below $22,440 will not pay NWT tax.***
- ***Single earner couples with income below $39,920 will not pay NWT tax.***

Until 1999, the NWT had the lowest personal income tax rates of all Canadian provinces and territories. To return to the lowest tax system status, the NWT would have to apply the combination of the lowest tax rates, tax brackets and credit amounts announced for the 2003 tax year by other provinces and territories. The Competitive Tax Option therefore has rates of 8.0% in the lowest bracket, with subsequent rates of 9.24% and 10%; tax brackets of $0 to $33,000, $33,000 to $60,000, above $60,000; and, a personal and spousal amount deduction of $12,900.

The Competitive Tax Option was designed to provide NWT residents with the lowest tax system in Canada. Under this option, the cut-off for the zero tax level for a single income earner is $22,440 and the cut-off for a single earner couple is $39,920.

The Competitive Tax Option is also a graduated tax system. However, the recommended income brackets are different from the income brackets for the proposed graduated option.

Under the current system, the personal amount is greater than the spousal and equivalent to married amounts. Therefore, single taxpayers with incomes below $14,240 do not pay NWT tax and single earner couples with incomes below $25,700 do not pay NWT tax.

The Committee also decided to further reduce taxes by increasing the spousal and equivalent to married amounts the same amount as the proposed personal amount of $11,050. This increase creates an additional tax benefit of $322 to single earner couples. The effect of the increase in the credit is greater for the spousal and equivalent to married amounts because the credits were lower initially and represent a greater increase.

The combined effect of increasing the personal, spousal and equivalent to married amounts would raise the cut-off for the zero-tax level to $20,000 for single taxpayers and $36,400 for single earner couples under the graduated tax option.

Flat Tax

"Flat" simply means "no graduation", or everybody pays the same rate. Under the flat tax there is no rise in the tax rate with increases in income. It is "flat".

The principle behind the flat tax is that all individuals are treated the same regardless of their income levels. The flat tax simplifies tax calculations.

The Flat Tax System applies a single tax rate across all income brackets. This would mean a significant change to the NWT personal income tax system. A single tax rate of 9.5% was chosen as a way to reduce the tax for both middle and high income earners from the current rates of 9.9%, 11.7% and 13.05%. This rate is an increased tax rate for the lowest income bracket of 7.2%.

The Committee proposed that credits be increased to offset the effect of the rate increase at lower incomes. To address this problem, the Committee's Flat Tax Option would require that the personal amount be increased to $13,000. This would make the NWT personal amount the highest in Canada.

FLAT TAX OPTION

- *Taxpayers with income below $21,580 will not pay NWT tax.*
- *Single earner couples with income below $39,120 will not pay NWT tax.*

The combined effect of increasing the personal, spousal and equivalent to married amounts would raise the cut-off for the zero-tax level to $21,580 for single taxpayers and $39,120 for single earner couples.

While the proposed flat tax, combined with the increases in credits, reduces taxes paid by lower income groups, the option would provide a greater benefit to the highest income group because it receives a decrease in the tax rate and increases in the credits.

Competitive Tax

The Competitive Tax Option creates multiple layers of tax saving, thus encouraging work, saving and entrepreneurial activity, which leads to a stronger economy. This increases the potential for investments in new machines and technology that will make NWT workers more efficient and competitive. High marginal tax rates discourage work, saving and entrepreneurial activity, which leads to a smaller economy.

Until 1999, the NWT had the lowest personal income tax rates of all Canadian provinces and territories. To return to the lowest tax system status, the NWT would have to apply the combination of the lowest tax rates, tax brackets and credit amounts announced for the 2003 tax year by other provinces and territories. The Competitive Tax Option therefore has rates of 8.0% in the lowest bracket, with subsequent rates of 9.24% and 10%; tax brackets of $0 to $33,000, $33,000 to $60,000, above $60,000; and, a personal and spousal amount deduction of $12,900.

The Competitive Tax Option was designed to provide NWT residents with the lowest tax system in Canada. Under this option, the cut-off for the zero tax level for a single income earner is $22,440 and the cut-off for a single earner couple is $39,920.

The Competitive Tax Option is also a graduated tax system. However, the recommended income brackets are different from the income brackets for the proposed graduated option.

Competitive Tax Option

- *NWT - lowest taxes in Canada*
- *Taxpayers with income below $22,440 will not pay NWT tax.*
- *Single earner couples with income below $39,920 will not pay NWT tax.*

CREDIT AMOUNTS

The following credit amounts were discussed.

1. Cost of Living Tax Credit

The cost of living tax credit (COLC) was introduced in 1993 to provide tax relief to NWT residents to offset the payroll tax. The credit is calculated on adjusted net income and reduces total taxes as shown in the following table. The COLC was increased in 2001. The current COLC, with the 2001 increase, rises proportionately with income to a maximum of $822 at an income level of $66,000. This means that higher income taxpayers benefit more than lower income taxpayers.

COST OF LIVING TAX CREDIT

Adjusted net income	Lump sum	Percentage of remainder
Less than $12,000	-	1.60
$12,000- $48,000	$192	1.25
$48,000- $66,000	$642	1.00
Over $66,000	$822	-

Because the COLC depends on net income, taxpayers who are low income earners receive little or no COLC.

The Committee determined that low income families should receive a minimum COLC amount of $250 per adult. Eligibility for the minimum amount would be determined similar to the GST credit, as it would be calculated based on family income and paid to one spouse only. The minimum amount would not be paid to tax filers under 18 years.

A minimum COLC will enhance the current COLC for low income households.

The following tables show the enhancement at different levels of COLC:

a) single income earners

Single	Enhancement	Total COLC
0	250	250
100	150	250
150	100	250
200	50	250
250	0	250
300	0	300

b) couples

First Spouse Credit	Second Spouse Credit	Enhancement	Total
0	0	500	500
100	0	400	500
100	100	300	500
200	100	200	500
300	100	100	500
400	100	0	500
500	0	0	500

2. Disability Amount

The disability amount provides a tax relief for people with disabilities. All eligible taxpayers are entitled to the full $6,267 (indexed to 2003) amount and guardians may claim on behalf of a minor or dependant. The disability amount can also be transferred to a spouse.

163 NWT residents claimed the disability amount in 1999.

The disability amount is considered to be a significant benefit to eligible NWT residents.

The Committee looked at an increase to the amount to provide extra relief to individuals with disabilities and guardians of individuals with disabilities. The Committee proposes a 43% increase to the present (indexed 2003) disability amount of $6,267, thereby increasing the amount to $8,961.

3. Age Amount

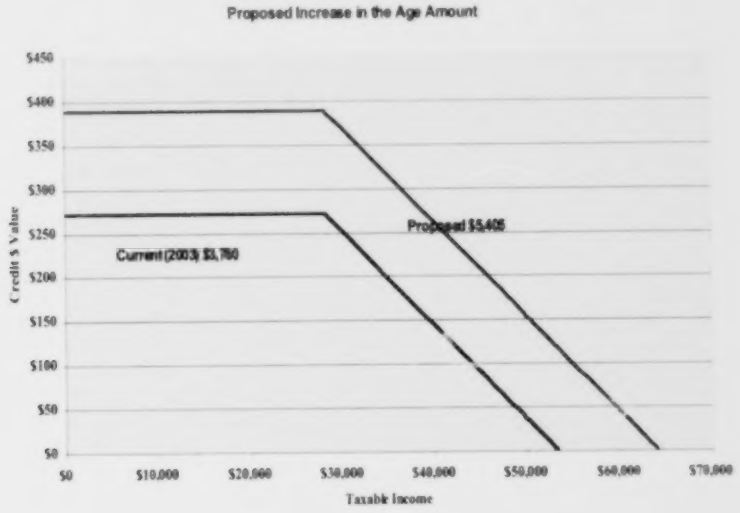
The age amount provides tax relief to people 65 or older on December 31 of the tax year. The current amount (indexed to 2003) for the credit is $3,780 for net incomes less than $28,175, phasing out at a net income of $53,300.

1,558 seniors claimed the age amount in 1999.

There was public input to the Minister's Advisory Committee on Personal Income Taxation requesting that seniors, specifically those in the low income bracket, be provided with more tax relief. Increasing the age amount was considered as a way to reduce the tax burden on senior residents of the NWT.

The Committee determined that an increase similar to the 43% increase for the disability amount would be part of the Committee's recommendations. Therefore, the Committee is proposing increasing the age amount from $3,780 (indexed to 2003) to $5,405.

As the following graph shows, the proposed age credit will increase both the credit amount and raise the level at which the credit is reduced to zero from $53,300 to $64,170. Under the current system, the increase has the advantage of providing an additional $117 in tax relief to seniors with less than $53,300 in total income and diminishing benefits for incomes as high as $64,170 in total income.



4. Investment Tax Credit

The Committee examined the merits of revising the investment tax credit based on a submission suggesting that the credit be enriched for some types of investments.

The Committee is not recommending any such changes because it would complicate tax administration without guaranteeing a significant increase in investment.

5. Medical Expenses

The medical expenses are used to calculate a non-refundable tax credit that allows a credit for medical expenses in excess of 3% of net income.

During the discussions, it was suggested that the 3% rate be eliminated so taxpayers could claim all their medical expenses. However, the added complications of increased claims would create a greater administrative burden. In addition, removing the 3% rate would negate the purpose of the credit, which is to provide tax relief to those residents with excessive medical or prescription expenses. Therefore, the Committee did not proceed with this suggestion.

No changes to:

- ✓ ***Medical expenses***
- ✓ ***Charitable donation***
- ✓ ***Education amount***

6. Charitable Donations

The existing credit for NWT charitable donations allows taxpayers to claim the following:

Donation ($)	Tax Credit
0 – 200	7.2%
Over 200	13.05%

The charitable donation credit encourages taxpayers to support charitable organizations. The Committee noted that tax rate changes would automatically cause the charitable donations tax credit rates to change.

7. Education Amount

The education amount allows taxpayers a credit for their tuition and education expenses from their taxable income.

The Committee investigated ways to change the education amount as part of the Committee's objective to find ways to encourage individuals to further their education and training.

The Committee decided that because the education credit had just been increased $200 to $400 they would not suggest changes to the credit.

8. Proposed Isolated Community Credit

An isolated community credit was considered as a way of recognizing the higher cost of living in isolated communities. The Committee investigated the possibility of determining an economic or geographic measure by which a tax credit could be bestowed upon NWT residents that are particularly susceptible to the high costs of northern living.

The Committee discussed the issues surrounding how to decide the amount of an isolated community credit and how this credit could be implemented. Issues surrounding how to calculate the credit amount and how to implement the credit equitably are difficult to resolve within the framework of fair and equitable taxation. Therefore, no recommendations were made about the possibility of this credit.

9. NWT Child Benefit

While this was originally thought to be within the scope of the Committee, Members agreed that their task was to examine personal income taxation in the NWT. The Child Benefit is more a social program than part of the tax program despite the fact that it is delivered through the tax system. Therefore, it was determined that no recommendations would be made to change the NWT Child Benefit.

10. Payroll Tax

The payroll tax was introduced in 1993 to ensure all workers in the NWT pay some NWT tax, even if they reside elsewhere. The tax is 1% of employment income and is paid by employees.

The payroll tax was examined for its potential to create additional revenue so the GNWT could further reduce personal income taxes. Increasing the payroll tax could not be considered independent of measures for countering the additional expense to NWT residents.

Increasing the payroll tax and either reducing income tax rates or increasing the cost of living tax credit would provide a greater incentive for workers in the NWT to live in the NWT and would ensure all workers in the NWT pay a share of taxes.

However, the government does not yet have reliable income tax data for post-division NWT. Any large shift in the tax burden from income tax to payroll tax could result in significant benefits to some NWT taxpayers and significant costs to others. It has not been possible to forecast changes in economic activity that might result from changes in the tax payable by different taxpayers.

These data limitations prevented the Committee from making any recommendations for the payroll tax.

COMPARISON WITH OTHER PROVINCES

All provinces and territories, except Quebec, have made plans to move to TONI. The move to TONI gives the provinces and territories the policy flexibility to respond to changing social and economic priorities while maintaining a harmonized national tax system.

With a move to TONI, several Canadian provinces developed plans for instituting substantial personal income tax reductions. The Committee examined the plans of three jurisdictions that are considered to be at the forefront of income tax reduction: Alberta, British Columbia and Ontario.

Alberta is the only province to shift from a graduated tax rate system to a single provincial income tax rate. In addition, Alberta's flat tax rate of 10 per cent was coupled with a raise in the personal and spousal amounts to $12,900 from $7,230 and $6,140.

British Columbia reduced its two lowest brackets from the current 2001 rates of 8.4% and 11.9% to 6.05% and 9.15% in 2002, making their tax rates in the two lowest brackets the lowest in Canada.

Ontario announced that effective January 1, 2003, the first Ontario tax rate would be 5.65 per cent of the taxable income. For income between $30,814 and $61,629 (both amounts indexed after 2001), the rate will be 8.85 per cent. (Appendix 1 shows the tax rates comparison for all the tax brackets and Appendix 3 shows a comparison of all the provinces' tax rates and tax credits.)

Recommendations

To ensure equity, efficiency, simplicity and competitiveness in the NWT tax system, the Committee discussed and proposed three options:

Option A. Graduated tax

Option B. Flat tax

Option C. Competitive tax

Each option, through a package of tax rates and credit amounts, provides relief to targeted income groups and ensures that a single earner taxpayer will not pay tax on income below $20,000.

The Committee does not favour one option over the other options. In addition, the Committee made specific recommendations about the age, disability and cost of living credit amounts.

RECOMMENDATIONS

Options:
A. Graduated
B. Flat
C. Competitive

- ✓ ***Increase the personal amount***
- ✓ ***Increase the spousal and equivalent to married amounts***
- ✓ ***Increase the age amount***
- ✓ ***Increase the disability amount***
- ✓ ***Introduce a minimum cost of living tax amount***

➢ Option A: Graduated Tax

The Committee proposes a graduated tax option as a possible option for the GNWT personal income tax system. The option, as designed by the Committee, will retain the same income brackets as the current tax on tax rate so there is no difference between the proposed graduated tax structure and the current system. However, the Committee recommends increasing the cut-off for the zero tax level for a single income earner from $14,240 to $20,000 by increasing the personal amount to $11,050. This provides a $238 tax saving for all taxpayers eligible to claim the full amount. For a single income earner at the 7.2% tax rate, the increase in the personal amount ensures that a single income earner with less than $20,000 in income does not pay personal income tax.

The Committee also recommends increasing the spousal and equivalent to married amounts to the same level as the proposed personal amount. This will raise the cut-off at which single earner couples do not pay taxes to $36,400.

Recommendations

To ensure equity, efficiency, simplicity and competitiveness in the NWT tax system, the Committee discussed and proposed three options:

Option A. Graduated tax

Option B. Flat tax

Option C. Competitive tax

Each option, through a package of tax rates and credit amounts, provides relief to targeted income groups and ensures that a single earner taxpayer will not pay tax on income below $20,000.

The Committee does not favour one option over the other options. In addition, the Committee made specific recommendations about the age, disability and cost of living credit amounts.

RECOMMENDATIONS

Options:
A. Graduated
B. Flat
C. Competitive

- ✓ *Increase the personal amount*
- ✓ *Increase the spousal and equivalent to married amounts*
- ✓ *Increase the age amount*
- ✓ *Increase the disability amount*
- ✓ *Introduce a minimum cost of living tax amount*

➢ Option A: Graduated Tax

The Committee proposes a graduated tax option as a possible option for the GNWT personal income tax system. The option, as designed by the Committee, will retain the same income brackets as the current tax on tax rate so there is no difference between the proposed graduated tax structure and the current system. However, the Committee recommends increasing the cut-off for the zero tax level for a single income earner from $14,240 to $20,000 by increasing the personal amount to $11,050. This provides a $238 tax saving for all taxpayers eligible to claim the full amount. For a single income earner at the 7.2% tax rate, the increase in the personal amount ensures that a single income earner with less than $20,000 in income does not pay personal income tax.

The Committee also recommends increasing the spousal and equivalent to married amounts to the same level as the proposed personal amount. This will raise the cut-off at which single earner couples do not pay taxes to $36,400.

➢ Option B: Flat Tax

The Committee also proposes a flat tax option with a single tax rate of 9.5%. Under this option, personal, spousal and equivalent to married amounts will be increased to $13,000. The combined effect of increasing these credit amounts raises the income level at which a single taxpayer pays no income tax to $21,580 and raises the income level at which a single earner couple pays no tax to $39,120.

➢ Option C: Competitive Tax

The Committee proposes the Competitive Tax Option as an option to give NWT residents the lowest personal income taxes in Canada. The Competitive Tax Option would have a 8.00% tax rate in the income bracket of $0 to $33,000, a 9.24% tax rate for incomes between $32,122 and $60,000, and a 10% tax rate for incomes over $60,000.

Under the Competitive Tax Option, personal, spousal and equivalent to married amounts would be set at Alberta's level of $12,900. Under this proposed option, a single NWT taxpayer would not pay taxes on income less than $22,440 and single earner couples would not pay taxes on income less that $39,920.

➢ Increase in the Age Amount

The Committee recommends increasing the age amount from $3,780 to $5,405 to provide relief to seniors.

The cost of implementing the increase in the age amount with a 7.2% tax rate would be $182,000. This cost will be $241,000 under the proposed flat tax option and around $203,000 under the proposed competitive tax option.

TAX SAVINGS WITH PROPOSED INCREASE IN AGE AMOUNT

- ✓ ***Graduated $117***
- ✓ ***Flat $154***
- ✓ ***Competitive $130***

➢ Increase in the Disability Amount

The Committee proposes increasing the non-refundable disability credit from $6,267 to $8,961.

While the cost of increasing the disability amount is small compared to the personal, spousal or age amounts, it represents significant tax savings for eligible taxpayers.

The cost of implementing the increase in the disability amount is $32,000 under the graduated option. This cost will be $42,000 under the flat tax option and $35,000 under the competitive tax option.

TAX SAVINGS WITH PROPOSED INCREASE IN DISABILITY AMOUNT

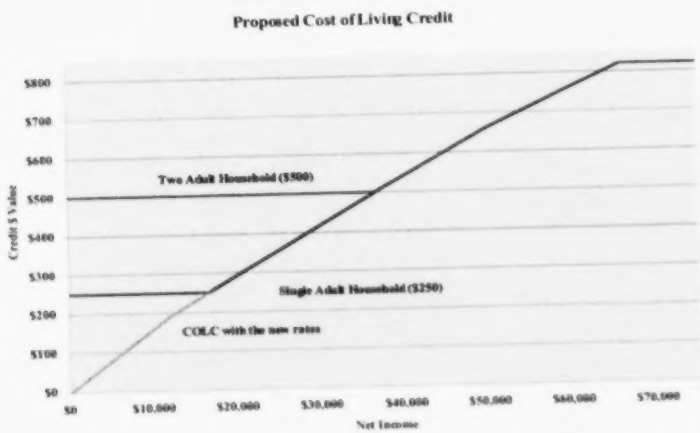
- ✓ *Graduated $194*
- ✓ *Flat $256*
- ✓ *Competitive $216*

➢ Implement a Minimum COLC

The Committee recommends implementing a $250 per adult minimum to the cost of living tax credit (COLC). Similar to the current GST rebate, the COLC minimum amount is based on household net income and may be claimed by only one member of the household.

By providing lower income taxpayers with a minimum COLC enhancement, the GNWT is helping to reduce the financial burden of living in the north on lower incomes. The cost of providing this minimum COLC enhancement is:

✓ Single earner	(13,120 filers)	$800,000
✓ Single income couples	(1,490 filers)	300,000
		$1,100,000



➢ Option B: Flat Tax

The Committee also proposes a flat tax option with a single tax rate of 9.5%. Under this option, personal, spousal and equivalent to married amounts will be increased to $13,000. The combined effect of increasing these credit amounts raises the income level at which a single taxpayer pays no income tax to $21,580 and raises the income level at which a single earner couple pays no tax to $39,120.

➢ Option C: Competitive Tax

The Committee proposes the Competitive Tax Option as an option to give NWT residents the lowest personal income taxes in Canada. The Competitive Tax Option would have a 8.00% tax rate in the income bracket of $0 to $33,000, a 9.24% tax rate for incomes between $32,122 and $60,000, and a 10% tax rate for incomes over $60,000.

Under the Competitive Tax Option, personal, spousal and equivalent to married amounts would be set at Alberta's level of $12,900. Under this proposed option, a single NWT taxpayer would not pay taxes on income less than $22,440 and single earner couples would not pay taxes on income less that $39,920.

➢ Increase in the Age Amount

The Committee recommends increasing the age amount from $3,780 to $5,405 to provide relief to seniors.

The cost of implementing the increase in the age amount with a 7.2% tax rate would be $182,000. This cost will be $241,000 under the proposed flat tax option and around $203,000 under the proposed competitive tax option.

TAX SAVINGS WITH PROPOSED INCREASE IN AGE AMOUNT

- ✓ *Graduated $117*
- ✓ *Flat $154*
- ✓ *Competitive $130*

➢ Increase in the Disability Amount

The Committee proposes increasing the non-refundable disability credit from $6,267 to $8,961.

While the cost of increasing the disability amount is small compared to the personal, spousal or age amounts, it represents significant tax savings for eligible taxpayers.

The cost of implementing the increase in the disability amount is $32,000 under the graduated option. This cost will be $42,000 under the flat tax option and $35,000 under the competitive tax option.

TAX SAVINGS WITH PROPOSED INCREASE IN DISABILITY AMOUNT

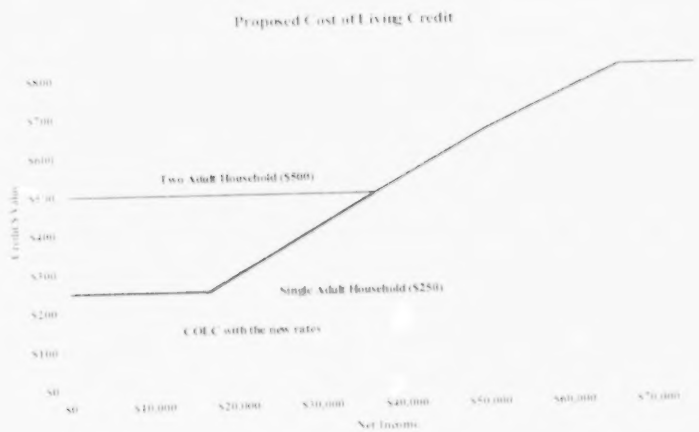
- ✓ *Graduated $194*
- ✓ *Flat $256*
- ✓ *Competitive $216*

➢ Implement a Minimum COLC

The Committee recommends implementing a $250 per adult minimum to the cost of living tax credit (COLC). Similar to the current GST rebate, the COLC minimum amount is based on household net income and may be claimed by only one member of the household.

By providing lower income taxpayers with a minimum COLC enhancement, the GNWT is helping to reduce the financial burden of living in the north on lower incomes. The cost of providing this minimum COLC enhancement is:

✓ Single earner	(13,120 filers)	$800,000
✓ Single income couples	(1,490 filers)	300,000
		$1,100,000



SUMMARY OF THE COSTS OF THE RECOMMENDED OPTIONS

Aspect	Graduated	Flat	Competitive
Tax Rates and Personal Amount Changes	$6.2 million	$8.4 million	$12.2 million
Minimum COLC	$1.1 million	$1.1 million	$1.1 million
Age Amount	$182,000	$241,000	$203,000
Disability Amount	$32,000	$42,000	$35,000
Total Cost[1]	**$7.5 million**	**$9.8 million**	**$13.6 million**
Total 2002-03 GNWT revenue[2]	836 million	836 million	836 million
Per cent reduction in GNWT revenue	0.9%	1.2%	1.6%
Per cent reduction in personal income tax revenue	12.5%	16.3%	22.6%

[1] Proposed changes to personal income tax will not affect the Formula Financing Grant under the current Formula Financing Agreement.

2 Forecast amount

APPENDIX 1- Comparison of Alberta, British Columbia and Ontario Personal Income Tax Changes

PROPOSED BRITISH COLUMBIA PERSONAL INCOME TAX BRACKETS AND RATES, 2001-2002

Taxable income[1]	Tax rates 2001		2002
	Previous	New[2]	New[2]
Less than $30,484	8.4%	7.3%	6.05%
$30,484 to $60,969	11.9%	10.5%	9.15%
$60,969 to $70,000	16.7%	13.7%	11.7%
$70,000 to $85,000	18.7%	15.7%	13.7%
Over $85,000	19.7%	16.7%	14.7%

Notes:

[1] Brackets are indexed to the BC provincial inflation rate.

[2] Rates in effect from January 1 to December 31 of each year.

ONTARIO PROPOSED INCOME TAX CHANGES 2002-2003

Taxable Income[1]	Current Tax rate (%)	Tax rate 2002 (%)	Tax rate 2003 (%)
Less than $30,814	6.20	6.05	5.65
$30,814 to $61,629	9.24	9.15	8.85
Over $61,629	11.16	11.16	11.16
Ontario Surtax			
Basic Ontario tax [2]			
Less than $3,560	0	0	0
$3,560 to $4,491	20	20	0
Over $4,491	56	56	56

Notes:

[1] Income tax brackets are indexed to the Ontario provincial inflation rate.

[2] Surtax brackets are indexed to the Ontario provincial inflation rate.

ALBERTA INCOME TAX
2002-2003

Taxable Income[1]	Current tax rate (%)	Tax rate 2002 (%)
Less than $30,814	10.00	10.00
$30,814 to $61,629	10.00	10.00
Over $61,629	10.00	10.00

Note:
[1] Alberta has increased the personal and spousal amounts to $12,900.

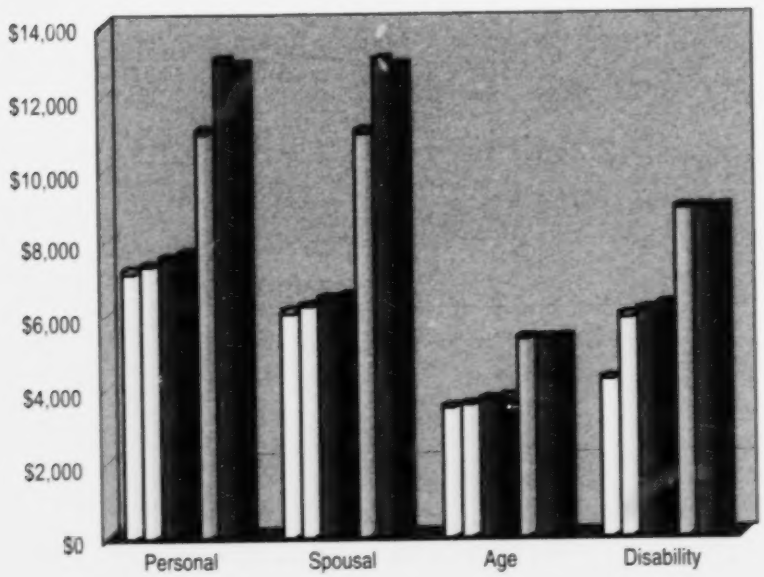
APPENDIX 2- Comparison of Different Options

Total Income	Current NWT (no minimum COLC)	Graduated Tax Option	Savings to Tax Payers	Flat Tax Option	Savings to Tax Payers	Competitive Tax Option	Savings to Tax Payers
					Single Taxpayer		
$10,000	($160)	($250)	$90	($250)	$90	($250)	$90
$20,000	$238	($0)	$238	($92)	$330	($116)	$354
$30,000	$687	$448	$238	$540	$147	$397	$290
$40,000	$1,299	$1,061	$238	$1,302	($3)	$1,038	$261
$50,000	$2,150	$1,912	$238	$2,107	$43	$1,821	$329
$60,000	$3,040	$2,802	$238	$2,957	$83	$2,645	$395
$70,000	$3,975	$3,737	$238	$3,847	$128	$3,543	$432
$80,000	$5,145	$4,907	$238	$4,797	$348	$4,543	$602
$90,000	$6,315	$6,077	$238	$5,747	$568	$5,543	$772
$100,000	$7,485	$7,247	$238	$6,697	$788	$6,543	$942
$120,000	$9,961	$9,723	$238	$8,597	$1,364	$8,543	$1,418
$140,000	$12,571	$12,333	$238	$10,497	$2,074	$10,543	$2,028
$160,000	$15,181	$14,943	$238	$12,397	$2,784	$12,543	$2,638
$180,000	$17,791	$17,553	$238	$14,297	$3,494	$14,543	$3,248
$200,000	$20,401	$20,163	$238	$16,197	$4,204	$16,543	$3,858
					Single Earner Couple		
$10,000	($160)	($500)	$340	($500)	$340	($500)	$340
$20,000	($235)	($500)	$265	($500)	$265	($500)	$265
$30,000	$213	($430)	$643	($500)	$713	($500)	$713
$40,000	$826	$265	$560	$67	$759	$17	$809
$50,000	$1,677	$1,117	$560	$872	$805	$800	$877
$60,000	$2,567	$2,007	$560	$1,722	$845	$1,624	$943
$70,000	$3,502	$2,942	$560	$2,612	$890	$2,490	$1,012
$80,000	$4,672	$4,112	$560	$3,562	$1,110	$3,490	$1,182
$90,000	$5,842	$5,282	$560	$4,512	$1,330	$4,490	$1,352
$100,000	$7,012	$6,452	$560	$5,462	$1,550	$5,490	$1,522
$120,000	$9,488	$8,928	$560	$7,362	$2,126	$7,490	$1,998
$140,000	$12,098	$11,538	$560	$9,262	$2,836	$9,490	$2,608
$160,000	$14,708	$14,148	$560	$11,162	$3,546	$11,490	$3,218
$180,000	$17,318	$16,758	$560	$13,062	$4,256	$13,490	$3,828
$200,000	$19,928	$19,368	$560	$14,962	$4,966	$15,490	$4,438

APPENDIX 2- Comparison of Different Options

Total Income	Current NWT (no minimum COLC)	Graduated Tax Option	Savings to Tax Payers	Flat Tax Option	Savings to Tax Payers	Competitive Tax Option	Savings to Tax Payers
				Single Taxpayer			
$10,000	($160)	($250)	$90	($250)	$90	($250)	$90
$20,000	$238	($0)	$238	($92)	$330	($116)	$354
$30,000	$687	$448	$238	$540	$147	$397	$290
$40,000	$1,299	$1,061	$238	$1,302	($3)	$1,038	$261
$50,000	$2,150	$1,912	$238	$2,107	$43	$1,821	$329
$60,000	$3,040	$2,802	$238	$2,957	$83	$2,645	$395
$70,000	$3,975	$3,737	$238	$3,847	$128	$3,543	$432
$80,000	$5,145	$4,907	$238	$4,797	$348	$4,543	$602
$90,000	$6,315	$6,077	$238	$5,747	$568	$5,543	$772
$100,000	$7,485	$7,247	$238	$6,697	$788	$6,543	$942
$120,000	$9,961	$9,723	$238	$8,597	$1,364	$8,543	$1,418
$140,000	$12,571	$12,333	$238	$10,497	$2,074	$10,543	$2,028
$160,000	$15,181	$14,943	$238	$12,397	$2,784	$12,543	$2,638
$180,000	$17,791	$17,553	$238	$14,297	$3,494	$14,543	$3,248
$200,000	$20,401	$20,163	$238	$16,197	$4,204	$16,543	$3,858
				Single Earner Couple			
Total Income							
$10,000	($160)	($500)	$340	($500)	$340	($500)	$340
$20,000	($235)	($500)	$265	($500)	$265	($500)	$265
$30,000	$213	($430)	$643	($500)	$713	($500)	$713
$40,000	$826	$265	$560	$67	$759	$17	$809
$50,000	$1,677	$1,117	$560	$872	$805	$800	$877
$60,000	$2,567	$2,007	$560	$1,722	$845	$1,624	$943
$70,000	$3,502	$2,942	$560	$2,612	$890	$2,490	$1,012
$80,000	$4,672	$4,112	$560	$3,562	$1,110	$3,490	$1,182
$90,000	$5,842	$5,282	$560	$4,512	$1,330	$4,490	$1,352
$100,000	$7,012	$6,452	$560	$5,462	$1,550	$5,490	$1,522
$120,000	$9,488	$8,928	$560	$7,362	$2,126	$7,490	$1,998
$140,000	$12,098	$11,538	$560	$9,262	$2,836	$9,490	$2,608
$160,000	$14,708	$14,148	$560	$11,162	$3,546	$11,490	$3,218
$180,000	$17,318	$16,758	$560	$13,062	$4,256	$13,490	$3,828
$200,000	$19,928	$19,368	$560	$14,962	$4,966	$15,490	$4,438

Non Refundable Tax Credit Amount 2000 to Proposed for 2003



	Personal	Spousal	Age	Disability
2000	$7,231	$6,140	$3,531	$4,293
2001	$7,412	$6,294	$3,619	$6,000
2002	$7,634	$6,482	$3,728	$6,180
2003 (No Change)	$7,742	$6,574	$3,780	$6,267
New 2003 Graduated	$11,050	$11,050	$5,405	$8,961
New 2003 Flat	$13,000	$13,000	$5,405	$8,961
New 2003 Competitive	$12,900	$12,900	$5,405	$8,961

APPENDIX 3- 2001 Provincial Personal Income Tax Rates, Brackets and Non-refundable Credits

PROVINCIAL-TERRITORIAL PERSONAL INCOME TAX BRACKETS, RATES & NON-REFUNDABLE TAX CREDITS

	NFLD	NB	PEI	NS	QUE[1]	ONT	MAN	SASK	AB	BC	YT	NWT	NUN
Tax brackets													
1st	$29,590	$30,754	$30,754	$29,590	$26,000	$30,814	$30,544	$30,000	-	$30,484	$30,754	$30,754	$30,754
2nd	$59,180	$61,509	$61,509	$59,180	$52,000	$61,629	$61,089	$60,000	-	$60,969	$61,509	$61,509	$61,509
3rd	-	$100,000	-	-	-	-	-	-	-	$70,000	$100,000	$100,000	$100,000
4th	-	-	-	-	-	-	-	-	-	$85,000	-	-	-
Tax rates													
1st	10.57%	9.68%	9.80%	9.77%	17.00%	6.20%	10.90%	11.50%	10.00%	7.30%	7.36%	7.20%	7.20%
2nd	16.16%	14.82%	13.80%	14.95%	21.25%	9.24%	16.20%	13.50%	10.00%	10.50%	10.12%	9.90%	9.90%
3rd	18.02%	16.52%	16.70%	16.67%	24.50%	11.16%	17.40%	16.00%	10.00%	13.70%	11.96%	11.70%	11.70%
4th	-	17.84%	-	-	-	-	-	-	-	15.70%	13.34%	13.05%	13.05%
5th	-	-	-	-	-	-	-	-	-	16.70%	-	-	-
1st tier surtax rate	9.00%	-	10.00%	10.00%	-	20%	-	-	-	-	5.00%	-	-
- tax threshold	$7,032	-	$5,200	$10,000	-	$3,560	-	-	-	-	$6,000	-	-
2nd tier surtax rate	-	-	-	-	-	36%	-	-	-	-	-	-	-
- tax threshold	-	-	-	-	-	$4,491	-	-	-	-	-	-	-
Basic personal amount	$7,410	$7,412	$7,412	$7,231	$8,415	$7,426	$7,412	$8,000	$12,900	$8,000	$7,412	$7,412	$7,412
Spousal amount	$6,055	$6,293	$6,294	$6,140	$8,415	$6,306	$6,293	$8,000	$12,900	$6,850	$6,294	$6,294	$6,294
Equivalent to married amount	$6,055	$6,293	$6,294	$6,140	$8,415	$6,306	$6,293	$8,000	$12,900	$6,850	$6,294	$6,294	$6,294
Age amount	$3,482	$3,619	$3,619	$3,531	$2,200	$3,626	$3,619	$3,619	$3,619	$3,587	$3,619	$3,619	$3,619
Disability amount	$4,233	$6,000	$4,400	$4,293	$2,200	$6,000	$6,000	$6,000	$6,000	$4,362	$6,000	$6,000	$6,000
Pension income amount	$1,000	$1,000	$1,000	$1,000	$1,000	$1,027	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000
Caregiver amount	$2,353	$3,500	$2,446	$2,386	$2,400	$3,500	$3,500	$3,500	$3,500	$2,424	$3,500	$3,500	$3,500
Infirm dependent amount	$2,353	$3,500	$2,446	$2,386	$2,200	$3,500	$3,500	$3,500	$3,500	$2,424	$3,500	$3,500	$3,500
Tuition, education amounts	$5,000	$5,000	$5,000	$5,000	$2,200	$5,135	$5,000	$5,000	$5,000	$5,000	$5,000	$5,000	$5,000
Charitable donations													
- first $200	10.57%	9.68%	9.80%	9.77%	20.75%2	6.20%	10.90%	11.50%	10.00%	7.30%	7.36%	7.20%	7.20%
- over $200	18.02%	17.84%	16.70%	16.67%	23.59%2	11.16%	17.40%	16.00%	12.75%	16.70%	13.34%	13.05%	13.05%
Education amounts in addition to actual tuition													
- part time (per month)	$60	$120	$60	$60	-	$120	$120	$120	$120	$60	$120	$120	$120
- full time (per month)	$200	$400	$200	$200	-	$400	$400	$400	$400	$200	$400	$400	$400

Notes:

1. Quebec taxpayers also receive a 16.5% reduction of federal tax
2. The Quebec large charitable donation threshold is $2,000.